

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN INQUIRY INTO INTRALATA TOLL)	
COMPETITION, AN APPROPRIATE)	ADMINISTRATIVE
COMPENSATION SCHEME FOR COMPLETION)	CASE NO. 323
OF INTRALATA CALLS BY INTEREXCHANGE)	PHASE III
CARRIERS, AND WATS JURISDICTIONALITY)		

O R D E R

On June 1, 1987, the Commission issued an Order in Case No. 8838, Phase IV,¹ which required jurisdictionally dedicated WATS² access lines. WATS is a discounted long-distance service provided for and utilized primarily by relatively large toll users. A WATS access line provides a telecommunications channel for voice grade frequency transmission and is the connection between the premises of a WATS customer and the WATS serving end office of the local exchange carrier ("LEC"). In its Order, the Commission required that intrastate WATS access service should be provided over separate, jurisdictionally dedicated access lines. More specifically, a subscriber was required to have a separate WATS access line for intrastate usage and a separate WATS access line for interstate usage. On June 19, 1987, MCI Telecommunications Corporation ("MCI") filed a petition for reconsideration and U.S.

¹ Case No. 8838, Phase IV, An Investigation of Toll and Access Charge Pricing and Toll Settlement Agreements for Telephone Utilities Pursuant to Changes to be Effective January 1, 1984.

² Wide Area Telephone Service.

Sprint Communications Company ("Sprint") filed a petition for rehearing and a motion for stay of the tariff filing requirements of June 1, 1987. On July 2, 1987, the Commission granted the petitions for reconsideration and rehearing. Additionally, the Commission granted Sprint's motion for a stay of tariff filings. This stay permitted Sprint and other interLATA carriers to continue existing service arrangements with their customers.

On October 6, 1988, the Commission issued an Order establishing Administrative Case No. 323. Following a series of formal conferences and the filing of written positions by the parties, the Commission ordered on December 12, 1988 that Administrative Case No. 323 should be considered in three phases, with the question of WATS jurisdictionality to be deliberated in Phase III.

On August 22, 1990, AT&T Communications of the South Central States Inc. ("AT&T") filed a motion requesting the Commission to issue an Order authorizing the provision of Universal WATS Access Lines ("UWALS") and to dismiss Phase III of Administrative Case No. 323. This action would allow WATS subscribers to transmit both interstate and intrastate traffic over a single access line.

As grounds for its motion, AT&T cited customer demand for multi-jurisdictional access line service and existing competitive pressures. AT&T also noted that Kentucky is the only jurisdiction in the nation which had not allowed the provisioning of UWALS. Additionally, AT&T stated that if allowing UWALS impacted the financial well-being of South Central Bell Telephone Company ("SCB"), this concern could be addressed during the Commission's

review of SCB's incentive regulation plan in Case No. 90-256.³ Responses to AT&T's motion were filed by Sprint, MCI, and SCB.

Sprint and MCI both supported AT&T's motion. In general, both companies cited customer advantages such as cost effectiveness, convenience, and affordability as primary reasons for supporting AT&T's motion. Additionally, mitigation of service bypass of the public switched network, efficient use of the telephone network and WATS stimulation were cited as reasons for allowing UWALS. Finally, MCI echoed AT&T's position that financial impacts on SCB, if any, should be addressed in Case No. 90-256. Although SCB objected to AT&T's motion, the only grounds for its objection was that by granting the motion, the procedural schedule heretofore ordered by the Commission would be altered.

On January 7, 1991, the Commission issued a data request asking a series of questions designed to assist the Commission in determining whether it should allow the provisioning of UWALS. MCI, Sprint, AT&T, SCB, Contel of Kentucky, Inc. ("Contel"), and GTE South Incorporated ("GTE") responded. In general, the respondents indicated that provisioning of UWALS was in the public interest; that financial impacts and stranded investment should not result from the provisioning of UWALS; and that methods are available to allow for correctly reporting jurisdictional usage for mixed traffic UWALS. SCB indicated that as set forth in Case

³ Case No. 90-256, A Review of the Rates and Charges and Incentive Regulation Plan of South Central Bell Telephone Company.

No. 90-256, its anticipated revenue decrease as a result of the provisioning of UWALS would approximate \$1 million. However, in testimony filed by SCB in Case No. 90-256 on April 22, 1991, SCB stated that upon further review of both the revenue and cost impacts of UWALS implementation, it had been determined that no quantifiable additional revenue requirement would result from such implementation.⁴

GTE and Contel both expressed concern about the possible revenue loss resulting from the adoption of UWALS, although neither company quantified the loss. To recover any revenue loss, GTE proposed a surcharge on UWALS subscribers or to include such revenue losses in the compensation proposal included in the Joint Motion presented in Administrative Case No. 323. Contel also proposed to include any revenue losses in the Joint Motion compensation proposal.

Because SCB was unable to quantify any additional revenue requirement resulting from the introduction of UWALS, even though it is the largest provider of jurisdictional WATS lines in the state, the Commission does not consider the possible loss of revenue an issue at the present time. If in the future any company determines that it has an additional revenue requirement as the result of the introduction of UWALS, that company should present evidence supporting its revenue shortfall in a separate petition.

⁴ Testimony of James C. Wilkerson, filed April 22, 1991, page 3.

While there was general agreement among the parties that UWALS should be authorized, GTE took the position that the Commission should continue to allow the provisioning of dedicated access lines, but should not require them. In addition, if the continuation of dedicated access line offerings were allowed, GTE was of the opinion that the concept should be extended to include "WATS-like" service. The record in this phase of the case overwhelmingly supports the authorization of UWALS based upon customer advantage and the public interest. No evidence has been provided that would persuade the Commission that dedicated access lines will serve any useful purpose. Therefore, dedicated access lines will no longer be allowed as a service offering in the state.

The parties agreed that the reporting methods in place for determining jurisdictional traffic are adequate for determining jurisdictional traffic over non-jurisdictional access lines. These methods are clearly detailed in SCB's Access Tariff Sections E2.3.14.A.4, therefore no additional requirements are necessary.

Finally, the Commission's decision to authorize UWALS does not in any way alter the decisions in Administrative Case No. 323, relative to the kinds of traffic which may be carried by IXC's and LECs. The current requirement that all intrastate intraLATA 1+ and 0+ traffic be carried by the LECs remains unchanged, pending implementation of intraLATA competition.

Based upon the evidence presented in support of AT&T's motion and the responses to the Commission's data request and all other

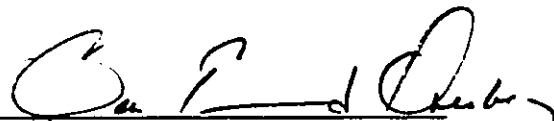
evidence of record, the Commission finds that prohibiting the provisioning of UWALS is not in the public interest.

IT IS THEREFORE ORDERED that:

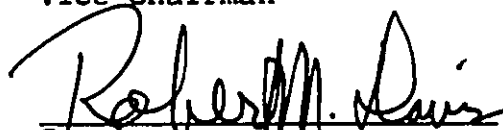
1. The motion of AT&T is granted.
2. Jurisdictionally dedicated WATS access lines shall not be allowed as a service offering as of the date of this Order.
3. The current system of jurisdictional usage reporting shall be retained.
4. Within 30 days of the date of this Order, LECs shall file revised tariffs reflecting the availability of UWALS.
5. Pending implementation of intraLATA equal access in Administrative Case No. 323, presubscribed intrastate, intraLATA 1+ and 0+ usage shall be carried by the LECs.
6. Phase III of this proceeding is hereby dismissed.

Done at Frankfort, Kentucky, this 18th day of December, 1991.

PUBLIC SERVICE COMMISSION


Chairman

Vice Chairman


Commissioner

ATTEST:


Executive Director